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China-Iran Energy Talks Complicate Nuclear Standoff

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China and Iran are trying to conclude a multibillion-dollar oil-and-gas deal in coming weeks, underscoring how China's appetite for energy could undermine Washington's efforts to isolate Iran.

An agreement would seal a memorandum of understanding signed by China and Iran in October 2004. Under its terms, Iran would allow China Petrochemical Corp., or Sinopec Group, to develop Iran's Yadavaran oil field in exchange for agreeing to buy 10 million tons of Iranian liquefied natural gas annually for 25 years.

Iranian oil-ministry officials familiar with the China talks said the country is trying to conclude any deals before potential sanctions are imposed on Iran for its nuclear ambitions. In a statement issued yesterday, the Iranian Embassy said both Iran and China will "... follow the agreements and contracts and keep in touch through bilateral-exchange delegations in order to fulfill the agreements on energy ..."

A Chinese delegation of top economic-policy makers from the National Development and Reform Commission is planning a trip to Iran, possibly as early as next month, an official with the commission's foreign-affairs department said yesterday. Final dates for the trip haven't been set yet, but negotiations on the energy deal are on the agenda, the official confirmed.


The deal could be worth tens of billions of dollars. The field is expected to produce about 300,000 barrels of oil a day at its peak. It is unclear if those terms have changed. Sinopec Group is the state-owned parent company of Hong Kong-listed Sinopec Corp.

The overseas subsidiary of India's state-owned Oil & Natural Gas Corp. would also be a minority partner in the Iran deal, with a 20% stake in the project. India and China recently said they would team up to bid for selected energy assets abroad in an effort to cut the cost of feeding their oil-guzzling economies. But this Iran deal preceded that agreement, and the Indian company isn't directly involved in the current talks.

The signing comes as Iran says it has restarted small-scale enrichment of uranium despite international efforts to stop it. Many countries fear Iran could use the fuel to build nuclear weapons. Iran says it intends to develop only nuclear-power plants. The U.S. has been pressuring its allies to isolate Iran and has threatened sanctions.

U.S. and European diplomats with deep involvement in the Iran standoff said they were surprised Iran and China were pushing ahead with the energy talks. One European diplomat said yesterday

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that the situation shows how complicated it is to deal with Iran, and that even within governments concerned about Iran there are different constituencies with different priorities.

Indeed, China also has encouraged Iran to drop its nuclear activities and has endorsed diplomatic efforts to resolve the standoff. But Beijing appears willing to put those concerns aside to secure more energy. China has struck oil deals with other countries the U.S. deems unfriendly, including Sudan and Syria.

One Iranian oil-ministry official said the deal is progressing, though its timing remains unclear.

Keun-Wook Paik, an energy researcher at Chatham House, a think tank in London, said Iran is trying to deliver a message to the U.S. and China. "The message to Washington is that Iran still has allies," Mr. Keun-Wook said. "And Iran wants China to know: 'We need you, we know what you're looking for -- you're desperate for oil and natural gas, why not go for our mutual benefit?'"

With its economy expected to grow roughly 9% this year as millions of Chinese buy homes and cars, China is already the world's second-biggest consumer of oil, after the U.S. The nation is expected to need as much as 7% more oil this year than last, and about 40% of that will be met from imports. Iran is already among China's top suppliers.

Officials from Sinopec declined to answer questions about the deal yesterday. **Royal Dutch Shell PLC**, which has offered technical advice to Sinopec on the project, said that it remains interested in participating in the future development of Yadavaran.

Since the deal was initiated two years ago, both oil and natural-gas prices have continued to rise. Under the preliminary 2004 agreement, Iran would give the Chinese company a 51% stake in the oil field, ONGC would get a 20% stake and the rest would be owned by National Iranian Oil.

----Cui Rong in Beijing contributed to this article.

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